Dear Plan Participants,

Did you ever take a ride on a roller coaster? If you did, you may have been frightened or even terrified at times, but you lived to remember some of the thrills. In the last few months, the markets have given us a less enjoyable roller coaster ride. However, there are many parallels we can draw from both experiences that may help us invest and plan for retirement.

We might be tempted to jump off the ride, especially at a low point and if we see others doing the same. It is a natural tendency to want to “bail out” on stock market investments when they go down. When markets decline, the media use scary words like plunge, plummet, and dive — sounds like our ride again. However, history has shown us that emphasizing the long term and riding out short-term fluctuations is more effective in growing Plan assets. We need to ask ourselves “Is the world really coming to an end?”

We frequently speak of asset allocation. Asset allocation is used to create a mix of investments to help smooth out our investment ride. While asset allocation cannot guarantee a profit or insulate you from losses in the markets, it can help you manage risk. The asset allocation decision is usually based on a combination of your individual investment time frame and risk tolerance. Once an appropriate asset allocation is selected, short-term adjustments due to market conditions should not be necessary. Allocation changes should be gradual as we age with reallocations based on longer terms trends. Those who don’t like roller coasters, or even Ferris wheels, may wish to select an asset allocation that stresses lower risk and stable income options.

There are important differences to consider. A roller coaster ride is relatively short while planning for retirement is a much longer endeavor. Also, the ride usually ends where it started whereas investments should trend higher over time. The one thing we do know is that markets will always experience periods of volatility. How market volatility effects your long-term investment plan is up to you.

Visit the Plan Web site or talk to an Account Executive or HELPLINE representative for guidance on positioning your account to meet your long-term needs.

Sincerely,

The New York State Deferred Compensation Board

Diana Jones Ritter  Frederick J. Jacobs  Michael A. Avella
While hardly anything in life is free, we don’t wish to pay more than we should for any product or service. The Securities and Exchange Commission and Congress have been actively examining retirement plan fees and asking the question — “Do participants know what they are paying and is it a fair amount?” The popular media has also been focusing on this issue. The Board understands this issue and has always taken an active role in controlling Plan expenses.

You should be aware that there are costs associated with investing in the Plan and that the Plan does not receive financial support from the State or any local participating employer. In essence, Plan participants pay the expenses of the Plan, including:

- **Investment-related expenses.** A mutual fund’s expense ratio, generally expressed as an annual percentage, is the fund’s operating expenses paid by fund investors, including management fees. This includes 12b-1 fees, if applicable. Expenses are deducted by the investment managers prior to posting the daily share price (NAV). Expense ratios for mutual funds offered as an investment option under the Plan are published in the quarterly Investment Performance Review, Plan enrollment materials, and on the Plan Web site.

- **Transaction and redemption fees.** The Plan does not have any transaction fees, but two mutual funds offered as investment options under the Plan charge a 1% redemption fee when shares of that mutual fund are bought and sold within one year. Other mutual funds may impose redemption fees at any time.

- **Fees for specific services.** Plan loans and investing through the Personal Choice Retirement Account (PCRA) mutual fund window are subject to specific fees. The PCRA has a one-time setup fee and annual maintenance fee of $15. Loans have an origination fee of $50 and a $50 fee for non-ACH payments, insufficient funds, or default.

- **General administrative expenses.** These include maintaining individual Plan records; providing regional Account Executives, the HELPLINE, and Web site; producing quarterly statements, newsletters, forms and brochures; and other general administrative expenses. General administrative expenses are paid from revenues received by the Plan, including the $14 annual participant fee, mutual fund reimbursements and interest income. Transaction and redemption fees and fees for specific services are paid directly by the participants who invest in the applicable investment option or use the applicable services. To better understand how these expenses are allocated among the participants, please visit the Plan Web site and go to “about nysdcp — fees.”

The Board dedicates significant time and effort to provide competitive investment options with expenses that are generally below industry averages. The chart on the next page compares the expense ratios for Plan investment options and mutual fund industry averages by category.
Expense Ratio Averages Comparison

<table>
<thead>
<tr>
<th>Industry Average</th>
<th>NYSDCP - Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Large-Cap Stock</td>
<td>1.43%</td>
</tr>
<tr>
<td>US Mid-Cap Stock</td>
<td>1.67%</td>
</tr>
<tr>
<td>US Small-Cap Stock</td>
<td>1.70%</td>
</tr>
<tr>
<td>International Established Market*</td>
<td>1.80%</td>
</tr>
<tr>
<td>International Emerging Market</td>
<td>1.80%</td>
</tr>
<tr>
<td>Lifecycle Funds</td>
<td>N/A</td>
</tr>
<tr>
<td>Taxable Bond</td>
<td>1.14%</td>
</tr>
</tbody>
</table>

*The Plan’s established market international funds are separately managed accounts.


Lower investment-related expenses don’t guarantee better performance. However, assuming funds with identical holdings and management, a lower fee will result in better relative performance. Saving one-half percent in investment-related expenses annually may not sound like much, but it makes a difference over time. For example, a $50,000 initial investment would grow to $20,000 more in twenty years assuming 8.0% returns versus 7.5% returns. The next issue of Quarterly will include an overview of the many administrative services provided to the Plan and the sources of revenue used to pay the costs of maintaining the Plan.

Stay As Long As You Like
Why Make a Change if You Don’t Have to?

Saving for your retirement through the Plan is a really good thing. You deserve credit for preparing for your future! When you retire or separate from service, you don’t have to move your money out of the Plan. You are welcome to continue participating in the Plan while in retirement and take advantage of flexible distribution options and many other benefits. You can also make life a little simpler by combining other retirement assets into your Plan account.

Here are some compelling reasons to remain in the Plan:

The Plan is Custom Designed. The Plan was created and is administered to serve New York State public employees and their beneficiaries — and nobody else.

The Plan has Flexible Payment Options. You’ve worked hard to accumulate money for retirement. You need flexible options that meet your financial needs and suit your lifestyle. Benefit payment options can be changed at any time. You are not required to receive benefit payments until you are 70½ years old, when you must begin to receive minimum distributions.

Low Cost. The Plan offers investment choices whose costs are significantly lower than industry averages. Higher costs may result in lower returns and less money in your retirement accounts. You should understand the total costs involved in any investment you may be considering.

You may be able to combine nearly all your retirement plan assets into one, easy-to-manage account — and continue to benefit from the Plan’s advantages. When you move pre-tax 401(k), 403(b), qualified retirement plan, or other public deferred compensation plan assets into your Plan account, you can manage your investments in one place.

For help combining other retirement accounts into the Plan or other questions about the Plan, please call your local Account Executive or the HELPLINE.

Qualified retirement plans, deferred compensation plans, and individual retirement accounts are all different, including fees and when you can access funds. Assets rolled over from another retirement account may be subject to surrender charges, other fees, and a 10% penalty tax if withdrawn before age 59½. Neither the Plan, nor any of its representatives give legal, tax, or investment advice.

Fee Waiver

The administrative charge to your Plan account is $14 annually, assessed in $7 installments in March and September. The Board is pleased to announce that the $7 administrative charge that would normally be deducted from participants’ accounts in March 2008 has been waived.
Hold On Through the Ups and Downs of the Market

How to survive market volatility

Recently, stock markets around the world have been plunging hundreds of points and bouncing back in a few days. You may be asking yourself, “Should I move my retirement assets out of stock funds?” The short answer is, “It depends.”

If you continue your investment strategy when the markets are topsy-turvy — or even through a down market — you can better focus on long-term goals rather than immediate concerns. You may benefit from a concept known as dollar cost averaging. Dollar cost averaging may result in lower average prices being paid for investments made during volatile markets. However, dollar cost averaging does not assure a profit and does not guarantee against loss in a declining market.

Consider the short-term impact other major crises have had on the market and, more importantly, the stock market’s long-term trend. Although investors who have stayed in the market during turbulent times have eventually been rewarded, past performance does not guarantee future results.

Do you want to learn more? Go to the Plan Web site where you can tour our educational resources, geared especially for your needs as a Plan participant.

If you have questions about how you may be able to effectively ride out market volatility, contact your local Account Executive or the HELPLINE.

5 Tips for Dealing with Market Turmoil

1. A well-thought-out investment plan is a well-thought-out investment plan regardless of market conditions. Stick with it.
2. If you’re in the market for the long-term, don’t make investment decisions based on short-term market drops or gains.
3. Evaluate how an investment fits into your overall financial strategy, regardless of short-term market volatility.
4. Look at a market decline as a buying opportunity. Some funds may be attractively valued following a broad market decline, allowing you an opportunity to invest at lower share prices.
5. Talk with your local Account Executive or call the HELPLINE. While information they provide is for educational purposes only and is not intended as investment advice, most of them have been through volatile periods before and understand your concerns.

Investment Options Under Heightened Monitoring

The Board and its independent investment consultant continue to monitor the Plan’s core investment options in accordance with its Investment Policy, which identifies conditions that warrant “heightened” monitoring as follows:

(1) performance issues
(2) a change in investment style
(3) departure of key personnel
(4) operational issues
(5) changes to the fund
(6) issues related to fees
(7) general regulatory issues
(8) changes in organizational structure of the fund

Heightened monitoring does not necessarily result in the closure of an investment option. However, the Board will actively evaluate those funds to determine if closure, elimination, or return to a regular monitoring status is appropriate. The chart below lists the Plan investment options currently under heightened monitoring along with the corresponding Investment Policy criteria.

<table>
<thead>
<tr>
<th>Investment Option</th>
<th>Policy Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alger MidCap Fund</td>
<td>(1)</td>
</tr>
<tr>
<td>Fidelity Magellan Fund*</td>
<td>(2)</td>
</tr>
<tr>
<td>Janus Fund</td>
<td>(3)</td>
</tr>
</tbody>
</table>

*Closed to new investments on December 31, 2007.
Two options known as “Catch-Up” are available if you are
1. Age 50 or over, or
2. Within four years of your Retirement Catch-Up Age

At a Glance: Maximum Deferral Amounts for 2008

<table>
<thead>
<tr>
<th>Deferral Type</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular Deferrals</td>
<td>$15,500</td>
</tr>
<tr>
<td>With Age 50 &amp; Over Catch-Up</td>
<td>$20,500</td>
</tr>
<tr>
<td>With Retirement Catch-Up</td>
<td>$31,000</td>
</tr>
</tbody>
</table>

You can only use one Catch-Up provision at a time, but both can help you contribute more to your Plan account.

As you approach retirement, you may be in a better financial situation to maximize your retirement savings and make a final effort to increase your Plan account. Because you never have to leave the Plan, your money and any earnings can continue to grow tax-deferred.

The Plan offers two “Catch-Up” options to help save more for retirement:

1. Age 50 & Over Catch-Up. Participants who will be age 50 or over in 2008 can contribute up to an additional $5,000 per year.
2. Retirement Catch-Up. Participants who are within four years of any year they are eligible to retire with an unreduced pension benefit can select a Retirement Catch Up Age (RCA) and make Retirement Catch-Up contributions to their account during the three consecutive calendar years prior to their RCA. The amount of catch-up contributions depends on the level of your contributions made in past years compared to the maximums allowed. Up to an additional $15,500 contribution may be made for 2008. Catch-up contributions must be completed before the calendar year you reach your Retirement Catch-Up Age or age 70½. Your Account Executive will help you calculate your available Catch-Up contributions.

Call your Account Executive or the HELPLINE and tell them you’d like to maximize your contributions to your Plan account in 2008.

ASSET ALLOCATION:

A Big Picture Look at Small-Cap Stock Funds

The right mix

By now, you've probably noticed the diversification apple used when we discuss asset classes. The apple symbolizes healthy choices and comes in many varieties. Just as your diet requires well-balanced nutrition choices, the same goes for your Plan account. It’s important you find a diverse mix of investments among the Plan's investment options to meet your long-term goals. It is also important to consider diversification based on capitalization (or "cap" for short) when choosing stock mutual funds. Capitalization is a company's size measured by the market value of its outstanding stock.

This article focuses specifically on small-cap stock funds that primarily invest in small cap companies whose market value is no more than $2 billion. Mid cap companies are generally defined as having a market value of $2-$8 billion.

Small-cap companies may have shorter operating histories, may produce new and innovative products and services, or supply other larger companies. Small-cap stocks have higher risks and can be more sensitive to economic changes. They often experience greater ups and downs in market price, which is also known as volatility. Although small-cap stocks can expose you to greater risk than do the Plan's large-cap and mid-cap investment options, they may also expose you to greater returns and diversification.

Small-cap does not mean small risk

If you are looking for high growth potential and have a high tolerance for risk, then including small-cap funds might be appealing. You should consider how much volatility you can accept when deciding how much to allocate to small-cap funds.

The Plan offers these small-cap funds:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Style</th>
</tr>
</thead>
<tbody>
<tr>
<td>Columbia Acorn USA Fund – Class Z</td>
<td>Growth</td>
</tr>
<tr>
<td>MTB Small Cap Growth Fund – Institutional</td>
<td>Growth</td>
</tr>
<tr>
<td>Wells Fargo Advantage Small Cap Value – Class Z</td>
<td>Blend</td>
</tr>
</tbody>
</table>

To learn more about asset classes or to request a prospectus, visit the Plan Web site, call your Account Executive, or the HELPLINE. Before investing in any fund, read its prospectus carefully. It shows the fund's investment objectives, risks, expenses, and other important information.
IMPORTANT PLAN INFORMATION:

Four Plan Investment Options Eliminated on March 20

As reported in past issues of the Quarterly and in a direct mailing to Plan participants, the George Putnam Fund of Boston, Morgan Stanley IF Institutional Value Portfolio, Dreyfus Appreciation Fund, and Harbor Capital Appreciation Fund were eliminated as Plan investment options on March 20, 2008.

This action was taken to streamline and simplify the investment choices available through the Plan and to encourage proper asset allocation and diversification among the Plan’s investment choices. The Plan continues to offer two comparable investment options in each investment style. Any assets remaining in those funds at the close of business on March 20, 2008 were transferred to comparable funds as follows:

<table>
<thead>
<tr>
<th>Eliminated Investment Option</th>
<th>Investment Option Receiving Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>George Putnam Fund of Boston</td>
<td>Vanguard Wellington Fund</td>
</tr>
<tr>
<td>Dreyfus Appreciation Fund</td>
<td>Vanguard Institutional Index Fund</td>
</tr>
<tr>
<td>Harbor Capital Appreciation Fund</td>
<td>Fidelity OTC Portfolio</td>
</tr>
<tr>
<td>Morgan Stanley IF Value Portfolio</td>
<td>Mainstay ICAP Equity Fund</td>
</tr>
</tbody>
</table>

Fidelity Magellan Closed to New Investments

As reported in past issues of the Quarterly and in a direct mailing to Plan participants invested in the Fidelity Magellan Fund, the Plan closed the Fidelity Magellan Fund to new deferrals and exchanges on December 31, 2007. It had been on the heightened monitoring list since October 2004. Any Participants who have balances in the Fidelity Magellan Fund may keep funds in that investment but may not add to it. Any salary deferrals allocated to the Fidelity Magellan Fund received after December 31, 2007 have been directed to the Fidelity OTC Fund. Participants who were allocating a portion of their salary deferrals to the Fidelity Magellan Fund and who did not select a new deferral allocation are encouraged to review their salary deferral allocation and make any desired changes. Deferral allocations can be adjusted on the Plan Web site or by speaking to a HELPLINE Representative. If you want to know more, please call the HELPLINE.

Free Desktop Calendar

Continued from front page

- Access financial calculators
- Access investment performance information
- Download forms
- Learn more about investing

The Plan will continue to make improvements to the Plan Web site. We invite your comments on the new Web site design and your suggestions for future enhancements. Please use the Contact Us link in the upper right hand corner of the home page to send us an email.